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FISCAL IMPACT STATEMENT

LS 7275 | **NOTE PREPARED:** Jan 9, 2005
BILL NUMBER: HB 1730 | **BILL AMENDED:**

SUBJECT: Property tax assessments.

FIRST AUTHOR: Rep. Espich | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: For property tax assessments in years after 2005, this bill reinstates the personal property assessment rule of the Department of Local Government Finance (DLGF) originally intended to apply beginning in 2002 and voided effective January 1, 2003.

This bill also establishes a deduction that phases in over three years the addition to the assessment rolls of the assessed value resulting from personal property installation and rehabilitation and real property construction and rehabilitation. The bill provides that the deduction does not apply to inventory, retail property, and new home construction.

Effective Date: January 1, 2006.

Explanation of State Expenditures: *Personal Property Rules*: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead Credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Tax shifts to business personal property from other property cause the state's expense for the 20% PTRC and Homestead Credits to increase. The reduction in state expense for these credits is estimated at $5.3 M in FY 2007 (partial year) and $16 M to $17 M per year in years following.

PTRC and Homestead Credits are paid from the Property Tax Replacement Fund (PTRF). These credits are paid from the state General Fund if insufficient balances are available in the PTRF.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Personal Property Rules*: In 2001, The DLGF adopted new rules governing the assessment of business and utility personal property (50 IAC 4.3 and 50 IAC 5.2). These new rules along with their new valuation schedules were scheduled to be effective for property assessed on the March 1, 2002, assessment date with taxes paid in CY 2003. HEA 1001-2002(ss) voided those rules in favor of the rules as they existed through the 2001 assessment date (50 IAC 4.2 and 50 IAC 5.1).

Beginning with 2006 assessments, payable in 2007, this bill would reinstate the revised rule (50 IAC 4.3) for business personal property. The rule for utility property is not affected by this provision.

The overall effect of using the revised business personal property rules would be an increase in the assessed value base. This AV increase would cause a reduction in the property tax rates, causing a tax shift to owners of business personal property from all other property types (real and personal).

Assessments under the new rules are expected to increase assessments on depreciable assets by about 33%. The total real plus personal property tax base would increase by about 3.1%. The state average tax rate would be reduced by an estimated $0.0750 per $100 AV, causing a net tax shift of about $120 M to personal property which reduces real property net taxes by $104 M and PTRC/Homestead Credits by $16 M. Total local revenues would not be affected except that revenue would increase in cumulative and capital projects funds by the product of the tax rate multiplied by the assessed value.

Assessment Phase-in Deduction: Under this provision, the assessed value of new or rehabilitated real and personal property would be phased in over a period of three years. To accomplish the phase-in, a 66% deduction would be applied to the new or added valuation in the first year of assessment and a 33% deduction would be applied in the second year. The phase-in deduction would not be available for real and personal property owned by a retail business or to new single family homes. The additional AV resulting from the rehabilitation of existing single family homes would receive the deduction. The deduction would be applied automatically and no application by the taxpayer would be required.

The phase-in deduction would slow the growth of both real and personal property AV. There would be no effect on the assessed value of existing property.

Tax shifts between property classes. The varying rates at which assessed values in each class of property grow in relation to each other determine each class's relative share of the tax burden. The extent to which the growth rate for each class is reduced will determine whether any tax shifts will occur between classes.

Tax shifts between existing and new or rehabilitated property. Generally speaking, the addition of new or rehabilitation assessed value to the tax base provides a tax shift from existing property to new property by spreading the tax levy over a larger tax base. The phase-in deduction would slow this shift.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Local assessors.

Information Sources: Local Government Database; Personal property tax return data.

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